

# Survive and Thrive Workshop Series

Session 3  
Managing Your Expenses  
5 March 2009



## Workshop Series Hosts

- South Dakota Small Business Development Centers (SD SBDC)
- US Small Business Administration (SBA)
- University of South Dakota
- Regional Planning Districts & other Economic Development entities



## Workshop Series Dates

- Where do I stand financially? (26 Feb)
- How can I better manage my expenses? (5 March)
- How can I increase my sales? (12 March)
- How do I manage and improve my cash flow? (19 March)
- Should I have a succession plan in place? (26 March)



## Ready Talk Seminar

- For those at host locations, please sign in; for those on individual lines, you have already registered with the SBA
- Please note of any questions that you may wish to ask. These will be collected at the host locations, sent via Ready Talk Chat or can be sent directly to [jean.rogers@sba.gov](mailto:jean.rogers@sba.gov)

## Workshop Goals

- Improve the viability of your business during this time of economic uncertainty by providing you insight as to your current position and empowering you to make financial and management decisions to increase the likelihood of survival



## Session 3 Outline

- Process Considerations
- Expense Management Measures for Various Categories:
  - Inventory Costs
  - Labor Costs
  - Variable Costs
  - Fixed Costs
- Debt Service Options
- Budgeting and Measurement



## Process Mindset

- This is not a one time event
- Be strategic in your decisions
- Establish controls and measurements to manage going forward



## Engagement Activities

- Clearly communicate goals
- Those closest to action often have best ideas
- Create teams to review and make suggestions
- Create competition with awards based on savings, improvements, etc.
- Consider LEAN process



## Seven Wastes

Based on the Lean concepts created by Toyota, there are 7 wastes in every operation:

- |                          |                          |
|--------------------------|--------------------------|
| ▪ <b>T</b> ransportation | ▪ <b>W</b> aiting        |
| ▪ <b>I</b> nventory      | ▪ <b>O</b> verproduction |
| ▪ <b>M</b> otion         | ▪ <b>O</b> verprocessing |
|                          | ▪ <b>D</b> efects        |

Remember by acronym  
(TIM WOOD)



## Inventory Costs

- Inventory Management
  - Days inventory
  - Old inventory
  - Scrap
- Freight and Delivery Issues
  - Logistics
  - Pricing



## Inventory Costs

- Supplier Issues
  - Vendor pricing
  - Volume discounts
  - Taking advantage of discounts

Example:

\$1000 bill with 2% discount =  $\$20 \times 12 \text{ months} =$  **\$240 savings**

If you borrow \$1000 for 1 month at 8% = interest cost is  $\$6.67 \times 12 \text{ months} =$  **\$80 cost**



## Labor Costs

Assess Current Situation

- Labor as % of Sales Benchmark  
<http://www.census.gov/epcd/ec97brdg/>
- Fixed vs. Variable
- Employee Turnover Rate  
<http://www.nobscot.com/survey/index.cfm>
  - No. of Separations/No. of Positions = Turnover %
  - 5 people left the company during the year and the company has 10 positions.  $5/10=50\%$  turnover rate



## Labor Costs

### Wages and Benefits

- Are employees being paid appropriate rate for their duties?  
[http://dol.sd.gov/lmic/menu\\_occupational\\_wages.aspx](http://dol.sd.gov/lmic/menu_occupational_wages.aspx)
- How much overtime is being paid?
- Are benefits reviewed regularly?
- Are employees classified correctly for worker comp?



## Labor Costs

### Other Considerations

- Can some tasks be outsourced?
- If labor is available, should some tasks be brought in house?
- Reduce turnover - training
- Job sharing, flex hours, employee sharing



## Other Variable Costs

- Credit card fees – review your fees and plans
- Bad debt – prevention is the best medicine
- Utilities – check on green sources, load management
- Shop Supplies – order control (similar to inventory)
- Vehicle Expense



## Fixed Costs

- Insurance – should be bid regularly (1-3 years)
- Communications – need for, use of, services
- Space – lower rate, reassign space, share space
- Maintenance contracts – review past usage



## Fixed Costs

- Equipment leases – read the fine print
- Vehicles
- Are fixed assets being used effectively?

***Businesses have needs,  
people have wants***



## Debt Service

- Review current rates and terms
- Is current debt payment manageable?
- If not, consider
  - Interest only
  - Restructuring
  - Consolidation

Use amortization tool to calculate new payments  
[http://www.bankrate.com/brm\\_c/popcalc2.asp](http://www.bankrate.com/brm_c/popcalc2.asp)



## Debt Service

Restructuring/consolidation may not be possible if:

- You have a poor credit score
- You have not made timely payments on your existing notes
- If you are in default on any of the notes
- There is not sufficient security for the consolidated note
- You cannot show ability to repay new note

In these cases, a more complex workout may be needed.



## Warning Signs a More Complex Workout is Needed

1. You're having trouble paying current bills as well as past due debts.
2. You're putting off debts that you had planned to pay.
3. You've already negotiated new payment terms with creditors, but can't afford them.
4. You're paying smaller creditors first while ducking larger creditors that potentially pose a bigger threat to your company.
5. You're being contacted by a collection agency or are being sued.
6. You're bouncing checks.
7. At least 30% of your payables are over 90 days old.



## Tax Planning

- Must have your books current for a pre-yearend review
- Look at the big picture – adjustments this year will affect next year as well
- Only do it if it makes business sense
- Use a professional



## Budget & Measurements

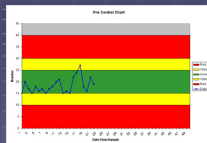
- Set up a budget based on changes identified
- Measure on a monthly basis and assess effectiveness and other changes that may be necessary

*What gets measured, gets done.*



## Budget & Measurements

- Share measurements with staff



## Checklist Summary

- ✓ Use process as a tool for employee engagement
- ✓ Review all expenses, giving special attention to:
  - ✓ 5 highest expenses
  - ✓ 5 fastest growing expenses
  - ✓ expenses that are higher than industry averages
- ✓ Identify contracts that can be renegotiated and begin process, i.e., contact vendors, put out for bid



## Checklist Summary

- ✓ Identify excess capacity in labor/space/equipment
- ✓ Create matrix of all debt terms and review to determine restructure feasibility
- ✓ Create budget and visuals for measurement
- ✓ Identify Breakeven Point for new expense levels

## Future Workshop Topics

- After each session, participants will be provided an opportunity for feedback through surveys. Based on survey results, future workshops may be developed to delve into greater detail in specific areas (i.e. factoring, Government Procurement, etc).



## We Want Your Feedback!

- Please provide your feedback in the survey at your host site, or which will be sent to the email address that you provided. This will allow us to tailor upcoming events to best suit your needs!



## How can I increase my sales?

Session 4  
12 March 2009

Contact Jean Rogers to registers  
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## Resources Available

- For a copy of this slideshow and tools
  - [www.sba.gov/sd](http://www.sba.gov/sd)
- Free Excel compatible software
  - [www.openoffice.org](http://www.openoffice.org)
- For additional training and education, visit the SBA Resource Library
  - [www.sba.gov/tools/resourcelibrary/index.html](http://www.sba.gov/tools/resourcelibrary/index.html)  
(features Podcasts, Publications and Research)